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21 Custom House Street

Boston, MA 02110-3525

Re: Boston Gas Company, D.T.E. 98-98-B; Telephone Service Factor

Dear Attorneys Werlin and Kimball:

On September 15, 1998, Boston Gas Company ("Boston Gas" or "Company") submitted to the Department of Telecommunications and Energy ("Department") its second annual performance based regulation ("PBR") compliance filing, pursuant to the Department's Orders in Boston Gas Company, D.P.U. 96-50, 96-50-C, and 97-92. The matter was docketed as D.T.E. 98-98. The Attorney General of the Commonwealth ("Attorney General") filed a notice of intervention as of right, pursuant to G.L. c. 12, § 11E. On October 30, 1998, the Department issued an Order approving the changes to the tariffs subject to further investigation. Boston Gas Company, D.T.E. 98-98 (1998). After further investigation, on April 1, 1999, the Department issued an order addressing certain issues, including Boston Gas' telephone service factor ("TSF") component of the service quality index ("SQI"). Boston Gas Company, D.T.E. 98-98-A (1999).

Under Boston Gas' PBR rate plan, the TSF component of the SQI establishes performance targets that the Company is required to meet in answering emergency, billing, and service telephone calls initiated by its customers. D.P.U. 96-50, at 303-311 (1996). Specifically, to reach the TSF target, Boston Gas must answer 90 percent of emergency calls and 80 percent of billing and service calls within 40 seconds. D.P.U. 96-50-C, at 63 (1997).⁽¹⁾

The Attorney General asserted that Boston Gas did not meet the TSF (Exh. AG-3-1 at 2). The Attorney General contended that when a customer calls Boston Gas, the customer hears the following menu options: (1) reporting a gas leak; (2) billing information; (3) opening or closing an account; or (4) holding for an operator (Exh. AG-1-11). These menu options are ultimately categorized by Boston Gas as (1) emergency; (2) billing; (3) service; and (4) miscellaneous respectively (id.). The Attorney General claimed that because there is no explicit "service" category on the Company's telephone menu, many calls that are categorized as miscellaneous are actually service calls (Exh. AG-3-1 at 2). According to the Attorney General, miscellaneous calls totaled 441,145, or 40 percent, of the Company's total customer telephone calls for the 1998 PBR filing year (id. at 2, 4). Of

these calls, 70.59 percent were handled within 40 seconds (Exhs. DTE-2-2; AG-2-3). The Attorney General argued that it is a service obligation of the Company to answer service inquiries, and because the Company did not reach the 80 percent benchmark for the miscellaneous category, Boston Gas failed to meet the TSF target by 2.10 percent (Exh. AG-3-1 at 2). Therefore, the Attorney General contends that Boston Gas should reduce its revenues by \$280,000 (id.).

In its Order dated April 1, 1999, approving other aspects of the Company's PBR compliance filing, the Department noted that Boston Gas' telephone system only provides one narrow service-related menu option, "opening and closing an account." D.T.E. 98-98-A, at 4 (1999). The Department stated that there are other possible service-related inquiries, including those relating to meter readings, meter changes, winter termination policy, elderly and illness termination rights, credit questions, and tenant rights. Id. Currently, such calls are falling into the miscellaneous category and the Company's performance in handling these calls is not being measured. Id. The Department noted the Company's argument that their telephone system could not further delineate the miscellaneous category into billing and service. Id. at 3. In the absence of such information, the Department stated that it would not impose a penalty on the Company. Id. However, the Department instructed Boston Gas to substantially reduce the number of incoming telephone calls being categorized by the Company as miscellaneous prior to the Company's September 2000, PBR filing. Id. at 4. The Department directed Boston Gas to submit a plan for categorizing 85, 90, and 95 percent of all calls as either "emergency," "billing," or "service." The Department noted that although Boston Gas stated in its brief in D.P.U. 96-50 that a service menu option would be available, no "service" menu option existed. Id., at 4, citing Exh. BG-2-1, at App. A.

Pursuant to the directives in our Order of April 1, 1999, Boston Gas submitted, on June 11, 1999, a proposal to modify its TSF. The Company's proposal did not include a plan for categorizing 85, 90, and 95 percent of calls, nor the associated costs. Instead, Boston Gas proposed to capture 100 percent of calls in the TSF by categorizing each call as either emergency or non-emergency. With respect to calls categorized as emergency, the Company proposed retaining the current benchmark of answering 90 percent of them within 40 seconds. With respect to calls categorized as non-emergency, which includes all calls currently categorized as billing, service, and miscellaneous, the Company proposed a benchmark of answering 76.6 percent of them within 40 seconds. Boston Gas stated that this benchmark is based on the Company's actual performance in answering calls in the billing, service and miscellaneous categories during the last three years. Alternatively, the Company stated that if the current benchmark of answering 80 percent of all billing and service calls within 40 seconds was approved as the benchmark for answering all non-emergency calls, it would need additional staff and equipment at a cost of \$150,000 in order to achieve the benchmark. The Company proposed to include these costs in its September 1999 PBR compliance filing.

The Department previously has stated that while the primary focus of any PBR should be to achieve cost reductions, the Department continues to recognize its mandate to ensure the continued delivery of safe and reliable service to the public. D.P.U. 96-50 (Phase I),

at 303, citing Incentive Regulation, D.P.U. 94-158, at 60 (1995). The Department has also stated that well-designed PBR plans should include measurable performance indicators and targets to evaluate a program's effects on safety, reliability, and service quality. Incentive Regulation at 63-64. The Department also has found that because price-cap regulation introduces a financial incentive for the regulated firm to reduce costs, a well-designed price cap plan must include some form of protection against a reduction in service quality for ratepayers. D.P.U. 96-50, at 304, citing NYNEX, D.P.U. 94-50, at 235 (1994).

With regard to emergency calls, the Department agrees with the Company that the current benchmark of answering 90 percent of emergency calls within 40 seconds, should remain unchanged.

In D.P.U. 96-50, at 63, the TSF categories of emergency, billing and service were established for the SQI component of the Company's PBR rate plan. Boston Gas' sole service menu option "opening and closing an account" does not comply with the Department's directives. It is too narrow to address the many other types of service inquiries a customer may make. Many customer calls for service would not fall into the option "opening and closing an account." These calls are categorized as miscellaneous and consequently are not measured. The failure to measure these calls conflicts with the Department's PBR policy and our directives in D.T.E. 96-50. The "opening and closing an account" menu option should be changed to the menu option "non-emergency," as the Company has proposed. This will enable all service calls to be included in the TSF, as well as simplify the Company's telephone menu options.

With regard to non-emergency calls, the Department notes that Boston Gas proposed an 80 percent benchmark which the Department approved in D.T.E. 96-50. To ensure no degradation in service quality, we will hold the Company to that benchmark.

Although the 80 percent benchmark was not originally intended to include miscellaneous calls, given that (1) the available data are insufficient, (2) the Company is under a PBR rate plan, and (3) only a small percentage of the total calls should have been categorized as miscellaneous, the Department finds that this benchmark is appropriate for all non-emergency calls. Such a benchmark should reasonably and adequately measure the PBR rate plan's effects on service quality while protecting against any degradation of service quality. Therefore, the Department finds that the benchmark for non-emergency calls shall be 80 percent answered within 40 seconds, on a going forward basis. In addition, the Department finds that the Company's proposal to capture 100 percent of incoming customer telephone calls by changing its menu options to "emergency" and "non-emergency" is consistent with the Department's PBR policy and directives in D.P.U. 96-50.

This decision does not constitute Department approval for recovery of additional costs incurred by the Company in satisfying the required benchmark. Boston Gas may seek recovery of such costs by submitting detailed supporting documentation in its next PBR compliance filing.

Accordingly, the Department finds that Boston Gas' benchmark for non-emergency calls in the Company's PBR filing for the year 2000 shall be 80 percent answered within 40 seconds. The Department also finds that Boston Gas' menu options shall be "emergency" and "non-emergency."

By Order of the Department,

Janet Gail Besser, Chair

James Connelly, Commissioner

W. Robert Keating, Commissioner

Paul B. Vasington, Commissioner

Eugene J. Sullivan, Jr., Commissioner

cc: James W. Stetson, Assistant Attorney General